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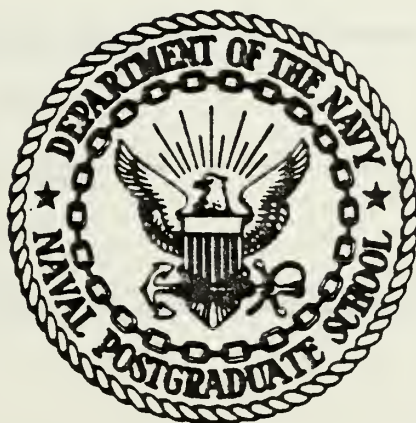
A SURVEY OF INTERNAL REVIEW  
IN THE U.S. MARINE CORPS

John C. Baggette



# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



# THESIS

A SURVEY OF INTERNAL REVIEW  
IN THE U.S. MARINE CORPS

by

John C. Baggette

June 1980

Thesis Advisor:

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A Survey of Internal Review in the U.S. Marine Corps

by

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Submitted in partial fulfillment of the  
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL  
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## ABSTRACT

Internal review, the Marine Corps field commander's in-house audit function, has received increasing attention recently because of its potential contribution to improved economy, efficiency and effectiveness of operations. A new Marine Corps directive on the subject expands the role of the function to a level approaching the full scope of auditing as defined by General Accounting Office standards. This thesis discusses the background of internal review and examines field compliance with current directives and a group of preferred practices from the private sector. Data from a survey of internal review groups is used to evaluate compliance against a base case model and to discuss the causes of non-compliance. The survey covered over one half of the internal review groups in the Marine Corps and was conducted using on-site visits and telephone interviews. Recommendations for improvement are presented for areas where significant findings resulted.



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## I. INTRODUCTION

### A. GENERAL

The military commander is faced with the need to satisfy an ever increasing demand for his services. While the desirability of these services is easily accepted, the resources available have frequently lagged behind the needs. Improvements in productivity and the reduction of fraud and waste therefore represent a major challenge and opportunity for the military manager.

What tools does he have to assist him? In the Department of the Navy, and in the U.S. Marine Corps, the Comptroller is the principal staff assistant for management control of financial and other resources. Internal review is a major function of comptrollership and a primary tool available to the Marine Corps commander for the enhancement of economy, efficiency and effectiveness.

What is internal review and how can it help? Internal review is defined later in more detail but should be thought of for now as internal auditing. The role of auditing in government is changing in scope to include more than the traditional look at the fidelity of accounts and compliance with applicable laws and regulations. The scope now encompasses the determination of economy and efficiency in the use of funds and if the funds effectively accomplish the purpose for which appropriated.<sup>1</sup> If internal review can provide the full





range of services in the new auditing scope, it certainly will be an asset to the manager faced with shrinking resources and rising demands.

Auditing in government now has a larger potential for contributing to better management. As a result it is receiving much attention from both the Executive and Legislative branches. President Carter selected internal control and audit follow-up as priority areas in the recently announced Financial Priorities Program.<sup>2</sup> Congress, for its part, passed the Inspection General Act of 1978 which requires reports on fraud and waste uncovered in government.<sup>3</sup> The military has received special congressional attention. Congressman Brooks, Chairman of the Subcommittee on Legislation and National Security of the House Committee on Government Operations told of interest in Department of Defense auditing efforts:

During this and the previous Congress, we have devoted a great deal of attention to reviewing the adequacy and effectiveness of the Department's internal management controls. I believe that with your cooperation there have been considerable improvements. However, more can be done. During the past three years we have made extensive reviews of many of the Department's audit activities. We have found many commendable aspects in these activities. In many respects they are unequalled in the Government. Generally, Defense auditors are hard working and talented. Other government agencies often look to the Department of Defense when recruiting their own auditors, attesting to the fact that Defense has some of the most qualified auditors in Government.

Some of the organizations were not, however, meeting accepted auditing standards. Improvement was needed. I am pleased to say that considerable progress has been made in bringing about improvements, although at times very slowly.<sup>4</sup>



Internal review is the main vehicle available to the commander for evaluating internal controls, auditing and for the detection and reporting of fraud and waste.

Internal review in the Marine Corps has undergone changes as a result of the new scope of auditing and the increased attention from superiors. A new directive was published in September 1979 which basically requires that the internal review function be expanded to include the new scope of auditing.<sup>5</sup> In addition, the directive makes internal review responsible for recommending corrective actions on deficiencies reported. Given the infrequency of external audit visits plus the rising interest in auditing, the in-house audit capability offered by internal review will be increasingly important in discharging command responsibilities.

## B. OBJECTIVE

The purpose of the thesis is to determine if policy regarding internal review is being converted to practice. The objective of the thesis therefore is to examine the internal review function in the U.S. Marine Corps to determine the degree of compliance with current directives and preferred practices, the causes of non-compliance, if any, and to make recommendations for improvement.

## C. METHODOLOGY

First, a search of available literature was conducted in order to establish what were the policies, regulations and



preferred practices with which the internal review function should be complying. The search included Marine Corps, Navy, and Department of Defense (DOD) regulations as well as relevant periodicals, journals, and textbooks from the private sector professional literature. Standards of compliance were developed from the search.

Next, a survey was conducted to determine how the internal review function was being conducted in the Marine Corps. A judgement sample of commands was conducted on-site or over the telephone. Data was collected on existing conditions, procedures and policies. Of the twenty-seven Marine commands required to have an internal review group, fifteen were surveyed, six on-site and the balance over the telephone. Activities surveyed provided a representative cross-section of operational air and ground units as well as shore establishment bases with a variety of missions. Finally, the results were analyzed and conclusions presented.

#### D. ORGANIZATION

The thesis is organized into four chapters. Chapter I is an introduction to the subject and provides rationale for the thesis.

Chapter II discusses the relative position of internal review within the internal control system and provides other background to explain the policies for the various forms of government auditing. Special attention is given to the differences between internal review and internal audit. Organiza-





tion and staffing is discussed for both operational units and the shore establishment. Finally, more detail is provided on trends in public sector auditing.

Chapter III describes the survey technique used to gather data for the thesis. Chapter III introduces the baseline model used as an evaluation standard in the analysis. The model is based on the requirements contained in regulations and on preferred practices from the current professional literature. The survey technique used is also briefly discussed.

Conclusions from the survey analysis are presented in Chapter IV. They are classified into the same areas used in the survey and answer the degree of compliance question stated in the objective. Chapter IV also offers recommendations for improvement of the internal review function in the Marine Corps.



## II. BACKGROUND AND POLICY

### A. GENERAL

In order to accomplish the objective of the thesis, a standard must be established for compliance to be measured against. Accordingly, this chapter will define what internal review should be, what it should not be, and discuss the types of government audits/reviews and variations in concepts as further background information before addressing the survey and analysis. It will also discuss trends in the public sector which impact on internal review.

Within the Department of the Navy (DON), internal review is defined as:

... the conducting of special audits, studies, analyses and investigations of financial operations and the use of command resources to detect deficiencies, improprieties and inefficiencies, and to provide recommendations in order to correct conditions that adversely impact on financial management, mission accomplishment, or the integrity of command.<sup>6</sup>

The terms internal review and audit are often confused, and with justification. This is due primarily to the various connotations the two words have in the public and private sectors. The two are used almost interchangeably in both sectors. In the DON, the accurate definition of internal review depends on the answer to the question, "internal to what sphere?"



... internal review is a function performed within a command, at the direction of the head of that command or in pursuance of a plan approved by him, the results of which are reported to him.<sup>7</sup>

Internal review is required at all shore establishments and major field commands in the Marine Corps. It is responsible for the following primary duties:

... to perform an independent examination of command operations, as may be directed, in order to disclose uneconomical, inefficient or ineffective use of resources, or noncompliance with directives or established internal control procedures over the administration of command assets and resources. In addition, internal reviewers may conduct special studies, analyses and examinations of comptroller functions, as directed, for the purpose of promptly detecting and correcting troublesome and unsatisfactory conditions arising in connection with established financial practices, procedures, records, systems, statements and reports. Secondly, the internal reviewer is concerned with recommending appropriate action to correct existing deficiencies that may be discovered during the course of a review or which may be brought to the attention of the command by external sources. Subsequent to the installation of corrective action, a follow on review should be scheduled to ensure that the unsatisfactory conditions noted in the review have been appropriately resolved.<sup>8</sup>

In summary of what internal review should be, one could say that it is the commander's in-house audit function which reports to him: findings of uneconomical, inefficient, or ineffective utilization of resources, and noncompliance with applicable financial regulations or internal control procedures. Internal review also conducts special examinations of comptroller functions as directed, makes recommendations to



correct deficiencies discovered by reviews and by external audit agencies, and conducts follow-on reviews of audit or review findings.

Several organizations within the DON conduct activities relating to internal review functions. There is, however, a clear line dividing the responsibilities of internal review and the other organizations. In addition to the Naval Audit Service (NAVAUDSVC) which will be discussed separately, there are five such organizations. They are the Inspector General of the Marine Corps, command inspectors, the Marine Corps Field Audit Service, the Marine Corps Exchange Service Internal Auditors and the Naval Investigative Service. The Inspector General and command inspectors conduct periodic inspections and special investigations relating to readiness, morale and compliance with regulations. The Field Audit Service performs audits of non-appropriated fund instrumentalities, except for exchanges. The Exchange Service Internal Auditors conduct financial and compliance audits of all exchanges on a semiannual basis. The Naval Investigative Service performs all criminal investigations including fraud.<sup>9</sup> Although similar in nature, the duties of these five organizations are clearly defined in regulations and are not the duties of internal review groups.

Execution of internal review in the U.S. Marine Corps is based on the laws, policies and regulations passed down from the Legislative and Executive branches of government to the





commander in the field. As Major John F. Dennis, U.S.M.C., points out in a recent study of internal review, varying interpretations of the policies occur as they move down the chain of command. This results in differences in the concept of internal review between the various levels of command in the DOD.<sup>10</sup>

## B. POLICY

Auditing as a tool of the internal control system has been used by public sector managers since the earliest days of the republic.<sup>11</sup> Many changes to the public laws on auditing have occurred since then. The nature and scope of auditing has changed with the laws, and today the custom of auditing is accepted by all branches of the Federal Government. In discussing audit policy in the Federal Government, three classifications of audits may be used: external audits, internal audits and internal review.

### 1. External Audits

There are two types of external audits directed at the DON. The General Accounting Office (GAO) is the principal agency which conducts external audits of the DOD and DON. Secondly, the DOD has its own audit organizations which are utilized throughout the DOD agency structure.

#### a. The General Accounting Office

The GAO is an agency of the Congress created to assist in providing legislative control over the receipt, disbursement and application of public funds. The head of



the GAO, the Comptroller General of the United States, is responsible for surveys, reviews and audits requested by Congressional Committees and Members of Congress.

The purpose and scope of audits by the GAO are often similar to the audits conducted by the audit organizations internal to the DOD. The differences in responsibilities are clarified by the GAO as follows:

Although there are numerous areas of common interest between the General Accounting Office and an agency's internal auditors, certain basic objectives and responsibilities differ. Internal auditing is an integral part of an agency's system of management control. In its audits, the General Accounting Office is concerned with the entire control mechanism within an agency, including the various arrangements made by the management for internal audits and other forms of inspection, appraisal and evaluation. If warranted by its evaluations, the General Accounting Office will rely on such work and make full use of it in conducting its examinations.<sup>12</sup>

This principle is set forth in the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

b. The Department of Defense

Audit agencies under the Secretary of Defense but external to the DON are the Defense Contract Audit Agency (DCAA) and the Defense Audit Service (DAS). The former is involved in the examination and evaluation of the records and operations of defense contractors. The latter, formed in 1976, performs audits of The Office of the Secretary of Defense, unified and specified commands, Defense Agencies, The Security Assistance Program, interservice audits of subjects that need to be viewed across organizational lines and other



areas of special interest to the Secretary of Defense.<sup>13</sup>

## 2. Internal Audits

Internal audits provide management with an independent, objective, and constructive evaluation of the economy, efficiency, and effectiveness with which managerial responsibilities are being carried out. Internal audits determine if management controls are adequate in concept and effective in application.<sup>14</sup>

### a. Authority

Statutory authority for internal audits is provided in the National Security Act Amendments of 1949 and the Budget and Accounting Procedure Act of 1950. The former requires the Secretary of the Navy to organize and conduct internal audit in a manner consistent with the operations of the Office of the Comptroller of the DOD. The latter requires the head of each executive agency to establish and maintain systems of accounting and internal control, to include internal audit; to provide effective control over and accountability for all funds, property and other assets.

Administrative authority for internal audits in the DON rests with Auditor General of the Navy who reports directly to the Under Secretary of the Navy.<sup>15</sup>

### b. Purpose

Internal audit in the Department of the Navy, under the responsibility of the NAVAUD-SVC, is the independent evaluation of programs, activities, systems, procedures, and other operations involving the expenditure of funds, utilization of resources, or





accomplishment of management objectives. The purpose of audit is to provide service to management at all levels through the objective performance of independent evaluations to determine the adequacy and effectiveness of practices, procedures, and controls. This is accomplished through objectively reporting results of audits, making constructive recommendations, and providing consultation while management plans action to be taken on findings and recommendations.<sup>16</sup>

c. Organization

The Auditor General of the Navy also serves as the Director, NAVAUDSVC. He receives technical guidance and supervision from the Assistant Secretary of the Navy (Financial Management). The NAVAUDSVC is made up of a Headquarters and four regional offices. Regional offices are responsible to the headquarters, in Washington, D.C., for the planning, supervision, conduct, and review of all internal audits of Naval activities within their regions.<sup>17</sup>

d. Operations

Internal audit operations are based on the broad management approach to auditing used by the DOD. The policy for this approach stresses the responsibilities of the audit staffs to provide services to all levels of management. The value of auditing is emphasized in helping management uncover deficiencies or problem conditions in order to plan corrective actions. It is The Secretary of the Navy's policy to conduct audits on a mission-oriented basis, so that audit attention focuses on those functions which are most important to commands at all levels. The results of internal audits provide





constructive recommendations to assist management in the formulation of action plans.<sup>18</sup> NAVAUDSVC auditors have access to any management information in the DON consistent with the purpose of the audit and the security clearance of the auditors.<sup>19</sup> Frequency of audits is based on a number of factors including the mission, size and complexity of the audit, the kinds of operations performed, results of prior audits, audit priorities and resource availability.<sup>20</sup> The NAVAUDSVC follows the standards established by the GAO and provides a full scope of auditing services. Figure 1 illustrates the types of auditing/review relationships discussed.

### 3. Internal Review

Internal review was defined earlier and will now be described in more detail in order to provide a better standard with which to measure compliance.

#### a. Authority

The DOD authorizes internal review activities in recognition of the need for some in-house audit capability at the field command level:

Management at lower echelons is not precluded from establishing groups which, while not performing independent or comprehensive audits, would serve as "trouble shooters" who may make special analyses in comptroller and other areas and assist in correcting deficiencies which are revealed by audits, reports, analyses, observations or other means. In authorizing such internal review activities at any echelon, care should be exercised to assure avoidance of duplication of internal audit functions as defined below which are assigned to the centralized audit organizations.<sup>21</sup>



b. Purpose

The purpose of internal review in the Marine Corps is:

To provide commanders an organic capability to examine, analyze, evaluate and explore those areas of operations where known or potential problem areas exist which may adversely affect the efficient and economical use of command resources.

Internal review represents an extension of the financial management responsibilities of commanders to ensure that the commitment of resources is in accordance with prescribed statutory requirements and in conformance with the policies and procedures directed by the Commandant of the Marine Corps. Within this context, the internal review function will periodically assess the effectiveness of prescribed internal control procedures, not only for, the accountability, recordation, certification and expenditure of appropriated funds, but also for the effective use of personnel resources and the control of command property, materials and supplies.

The effective use of internal review will not only provide commanders a means for assessing the adequacy and quality of internal command operations, but will also serve as the basis for the timely detection and correction of unsatisfactory conditions and practices.<sup>22</sup>

c. Organization

It is the policy of the Secretary of the Navy and the Commandant of the Marine Corps that internal review is a fundamental element of comptrollership and should be so placed organizationally. In order to ensure objectivity and independence of reviews, however, the internal review staff is not to be a part of the comptroller's line operations.<sup>23</sup>



#### d. Operations

Internal review operations are conducted in accordance with policies, procedures and guidelines promulgated by The Secretary of the Navy and the Commandant of the Marine Corps. The basic Marine Corps regulation on internal review provides guidelines and procedures in seven areas. These areas are summarized as follows: <sup>24</sup>

##### (1) Audit Liaison and Follow-up Actions

The internal review function serves as the coordinator for all dealings with external audit organizations. Duties include notification to the interested parties, rendering assistance during the external audit, and coordination of follow-up on findings and recommendations.

##### (2) Constructing the Annual Internal Review Program

Implementation of the internal review function is a command responsibility. Each Commander has prepared and publishes an annual internal review program of sufficient scope to encompass all local functional areas with known or suspected problems. Staff inputs into the annual program are not limited to comptroller functions. Tenant organizations without internal review capabilities are also included.

Priority is given to incomplete projects and follow-up on deficiency findings in external audit reports or previous internal review reports. The annual program must be flexible enough to accommodate urgent unprogrammed requirements.

Individual internal review projects contained





in the annual program include points of contact, the project's justification, objectives, scope, scheduled milestones, estimated man hours and any previous findings. A brief summary or checklist of required review procedures may also be included.

### (3) Performing an Internal Review

Internal review personnel must be knowledgeable in the area being reviewed. Operational directives, plans, policies and required internal control features must be familiar to them. Internal review groups may be augmented by functional or technical personnel on an ad hoc or collateral duty basis if the necessary competence is not available in the internal review organization. Such augmentation is normally provided from command resources and should be planned and scheduled in the annual program.

A formal review program, similar to those used by the Naval Audit Service should be developed during the preliminary part of the internal review project. The review program serves as a guide and checklist of actions to be accomplished. It also provides applicable references, tests for internal control procedures, and tests for evaluating performance or compliance with management policy and regulations.

The internal review group should keep operating officials fully informed of the purpose, scope and findings of the review from start to finish. Responsible supervisors and operating personnel are given the opportunity to review the facts and to comment on findings as they are developed.





An exit conference is held at the end of the review and line management reviews the draft report. Comments submitted during the review and exit conference are considered in preparing the final report.

(4) Documentation of Internal Reviews

Working papers serve to document the results of the internal review and are essential to the orderly transition from data collection to final report. Working papers are prepared in accordance with GAO guidelines.<sup>25</sup>

(5) Reporting the Results of an Internal Review

The internal review project results in a written report to the commander and other interested staff officials. The report contains findings of deficiencies and of accomplishments. The report offers recommendations for correction of deficiencies. The facts relating to the findings should be presented fully, accurately and objectively. No information should be presented which cannot be fully supported by the working papers.

(6) Administrative Control of Appropriations

Internal review groups must be involved in the avoidance, detection, investigation and reporting of administration control of appropriations violations. Such violations relate to sections 3678 and 3679 of the Revised Statutes. The former requires spending funds only for the purpose intended and the latter prohibits spending more than authorized. Internal review is called upon to provide train-



ing for new personnel working with appropriated funds. Normal job experience from conducting reviews make them the logical experts on this important area.

(7) Review of Timekeeping and Civilian Payrolls

An annual review of timekeeping and civilian payrolls is required by all activities employing civilian personnel, in accordance with the Navy Comptroller Manual, Volume 1. Internal review has responsibility for this function.

The primary objective of this review is to ensure that these functions, which consume a significant portion of the Marine Corps operation and maintenance appropriation, are properly and accurately administered.<sup>26</sup>

C. ORGANIZATION & STAFFING

The internal review function is applicable to all camps, posts, stations, depots and centers that are authorized to have a comptroller organization. The function is also applicable to Headquarters, Fleet Marine Force, Pacific and the Headquarters, Fleet Marine Force, Atlantic. In addition, these two operational forces have made internal review a requirement for their major subordinate commands. Internal review is located in the office of the comptroller in both the shore establishment and operating forces. The internal review function does not apply to the Marine Corps Reserve.<sup>27</sup>

As of 30 September 1979 a recapitulation of organization and staffing data for U.S. Marine Corps commands required to



have the internal review function was as follows:

|   | <u>Officer</u> | <u>Enlisted</u> | <u>Civilian</u> | <u>Total</u>      |
|---|----------------|-----------------|-----------------|-------------------|
| Authorized billets                      | 13             | 41              | 25              | 79                |
| Authorized billets filled               | 12             | 33              | 19              | 64                |
| % Authorized billets filled             | 92%            | 80%             | 76%             | 81%               |
| Average rank/grade authorized           | 0-2.3          | E-5.6           | GS-9.6          | ---               |
| Average rank/grade filled               | 0-2.0          | E-5.2           | GS-10.4         | ---               |
| Incumbents with authorized MOS/series   | 10             | 29              | 19              | 58                |
| % Incumbents with authorized MOS/series | 83%            | 88%             | 100%            | 91% <sup>28</sup> |

This same data is further classified in the following two sections.

1. Shore Establishment

Organization and staffing data for shore establishment activities are detailed in Figure 2.

2. Fleet Marine Force

Organization and staffing data for Fleet Marine Force activities are detailed in Figure 3.

3. Position Qualifications

Personnel working in internal review are trained to meet certain qualification standards before they are assigned a military occupational specialty (MOS) or career occupational series designator. These standards are based primarily on formal school training and work experience. The following subsections will discuss training and experience requirements





and describe the applicable duties and tasks. The three designators discussed cover ninety-four percent of the officer, enlisted and civilian billets authorized. The other designators are similar and will not be addressed.

a. Military

Military officers in the rank of 2nd Lieutenant through Captain are presently authorized for internal review billets. The predominant military occupational specialty is Financial Management Officer, MOS 3415. The MOS is normally assigned to unrestricted officers who possess a baccalaureate degree with a major in accounting, banking and finance, business administration, economics, comptrollership, financial or business management. Duties and tasks of the specialty are:

Advises the Commander/Comptroller in the various aspects of financial management relative to budget reviews and general management practices. Assists the Commander/Comptroller in planning programs for the improvement of manpower, materiel, and funds. Is responsible for overall budget preparation, evaluation, and execution. Develops cost analyses and reviews of statistical data. Supervises preparation of accounting reports and provides technical assistance in financial matters to subordinate commands and staff sections. Assists the Commander/Comptroller in the in-house function of internal review.<sup>29</sup>

Enlisted personnel in the rank of Lance Corporal through Master Gunnery Sergeant are authorized for internal review billets. Almost all are accounting technicians, MOS 3451. Assignment of the MOS requires that the Marine be a high school graduate, and have satisfactorily completed the





Fiscal Accounting Course. The functions of accounting technicians cover every aspect of the financial management process.<sup>30</sup>

b. Civilian

Qualification standards established by the Civil Service Commission are used for civilian workers engaged in internal review work. Most authorized billets are in the accounting series, GS-510-5/15. Candidates for all grades must have a bachelor's degree in accounting from an accredited college or university. This requirement may be satisfied through a combination of academic work and job experience. The following description of work for the accounting series is from the Civil Service Commission qualification standards.

Accountants and auditors perform professional work in any of several capacities depending upon the accounting system involved, the organizations and operating programs served, the financial data sought, and the needs of management. Accountants classify and evaluate financial data; record transactions in financial records; develop and install new accounting systems, revise existing accounting systems; and prepare and analyze financial statements, records and reports. Auditors examine accounts for the purpose of certifying or attesting that as of a certain date or for a stated period various financial statement fairly present the financial position of the activity audited in terms of assets, liabilities, net worth, and income and expenses. Auditors evaluate such matters as (a) the degree of compliance with laws, regulations and principles of sound financial management; (b) the effectiveness, economy, and efficiency of resource utilization and management systems; and (c) the extent to which desired results or benefits are being



achieved. Audit emphasis includes evaluating internal controls to determine the reliability of reported results; and assuring that generally accepted accounting principles have been consistently applied by the activity audited.<sup>31</sup>

#### D. PUBLIC SECTOR TRENDS

Internal review in the U.S. Marine Corps is influenced by many factors. Two main trends in the Public Sector have had or will have great impact on the function. They are the changing role of auditing and the passage in 1978 of the Inspector General Act. These two trends will be briefly covered in this section to complete the background discussion. They are considered important to a complete understanding of today's environment in which internal review must operate.

##### 1. Auditing

The role of auditing in the government sector is changing rapidly. In August 1972, the GAO published Standards for Audit of Governmental Organizations, Programs, Activities & Functions. The GAO standards expand the scope of auditing beyond the traditional financial audit to include compliance with applicable laws and regulations, efficiency and economy of operations, and effectiveness of program results. The standards apply to all government organizations, programs, activities and functions. The three elements of a full scope audit under the GAO standards are:

1. Financial and compliance -- determine (a) whether financial operations are properly conducted, (b) whether the financial reports of an audited entity are presented



fairly, and (c) whether the entity has complied with applicable laws and regulations.

2. Economy and efficiency -- determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure.
3. Program results -- determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.<sup>32</sup>

With the exception of working paper preparation, none of the regulations quoted earlier require that the GAO standards be adopted specifically by internal review. However, the author contents that a good case can be made that they be used. A basic premise considered in development of the standards was:

The term "audit" is used to describe not only work done by accountants in examining financial reports but also work done in reviewing (a) compliance with applicable laws and regulations, (b) efficiency and economy of operations, and (c) effectiveness in achieving program results.<sup>33</sup>

Depending on interpretation, internal review as previously defined appears to be similar in scope.





The rapid change in the role of public sector auditing is due primarily to application of the new GAO standards and the direction they dictate. An overview of the GAO standards is contained in Figure 4.

## 2. Inspector General Act of 1978

The preamble to the Inspector General Act of 1978 states that the objective is "to increase economy and efficiency in the Executive Branch of the government." Congressman L.H. Fountain, a principal author of the Act, explained their basic responsibilities to the newly appointed Inspectors General during orientation briefings as:

- conducting and supervising audits and investigations relating to the programs and operations of your agency;
- providing leadership and coordination and recommending policies for other activities designed to promote economy and efficiency and to prevent and detect fraud and abuse in such programs and operations; and
- keeping the agency head and the Congress informed about administrative problems and deficiencies and the necessity for and progress of corrective action.<sup>34</sup>

Although the DOD was exempted from establishing an inspector general, it must submit the semi-annual reports to Congress which summarize the activities of its audit, inspection and investigative organizations. Internal review data is included in the reports in three general areas: the number and location by activity of authorized and assigned personnel; the number of internal review reports issued in various categories; and lastly, a descriptive listing of significant





findings of waste or uneconomical and inefficient practices disclosed through the internal review process. Incidents of waste involving \$250,000 or more are considered significant. For findings of uneconomical, inefficient or ineffective practices, \$500,000 is the threshold for determining significance.<sup>35</sup> The key point in discussing the Inspector General Act's impact on internal review is this reporting requirement. With this new requirement, internal review ceases to be the commander's in-house audit function reporting only to him. Full compliance with the report requirements may result in internal review placing the commander on report to Congress. However, given the relatively high threshold for reporting it is not surprising that to date the Marine Corps has not reported any significant findings of waste or uneconomical and inefficient practices discovered by internal review.<sup>36</sup>

#### E. SUMMARY

Chapter II has explored the background and environment of internal review. It has addressed policies and regulations governing the function and other types of audit organizations which internal review must compliment. In addition, the organization and staffing of internal review groups has been presented and two important trends in governmental auditing which affect internal review have been highlighted. With this as background, we will now specify the evaluation model used and discuss the survey execution and findings..



Types

External  
Auditing

Internal  
Auditing

Internal  
Review

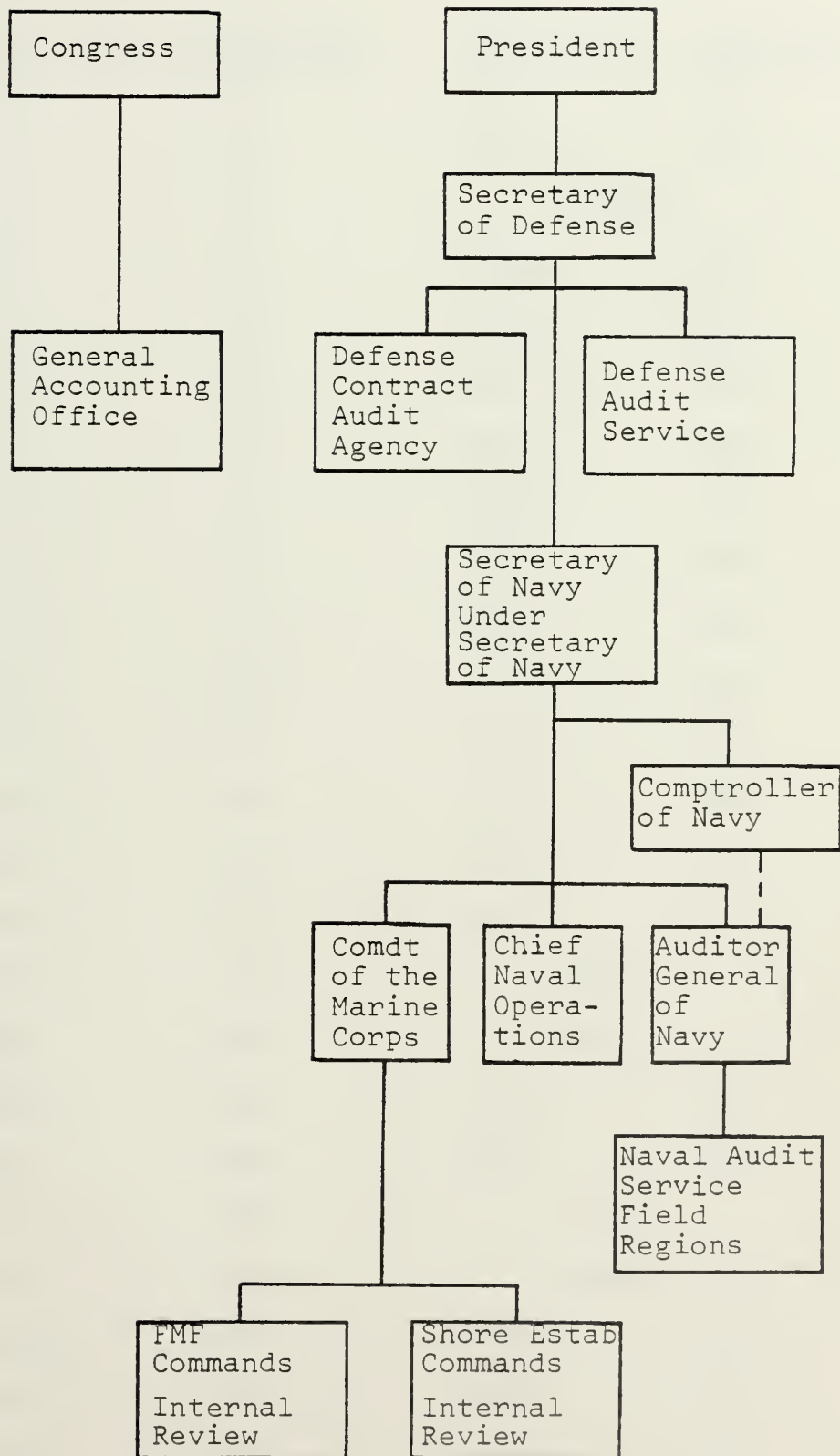


Figure 1. Auditing/Internal Review Types and Relationships



AUTHORIZED

ASSIGNED

| <u>Command</u>    | <u>Rank/Grade</u> | <u>MOS/Series</u> | <u>Rank/Grade</u> | <u>MOS/Series</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| Camp<br>Lejeune   | Capt.             | 3415              | GS-11             | 510               |
|                   | GS-9              | 510               | 2nd LT.           | 3415              |
|                   | GS-5              | 510               | Vacant            |                   |
|                   | MSgt.             | 3451              | GySgt.            | 3451              |
| Camp<br>Pendleton | GS-11             | 510               | GS-11             | 510               |
|                   | Capt.             | 3415              | 1st LT.           | 3415              |
|                   | GS-7              | 510               | SSgt.             | 3451              |
| Albany            | GS-12             | 510               | GS-12             | 510               |
|                   | GS-11             | 510               | GS-11             | 510               |
|                   | GS-11             | 510               | GS-11             | 510               |
|                   | GS-9              | 510               | GS-9              | 510               |
| Barstow           | GS-11             | 510               | GS-11             | 510               |
|                   | 1st LT.           | 3415              | 2nd LT.           | 3415              |
|                   | GS-9              | 345               | GS-9              | 345               |
|                   | GS-9              | 510               | GS-9              | 510               |
|                   | GS-9              | 510               | Vacant            |                   |
|                   | Sgt.              | 3451              | Vacant            |                   |
| Quantico          | GS-12             | 510               | GS-12             | 510               |
|                   | GS-7              | 510               | GS-7              | 525               |
| Parris<br>Island  | GS-9              | 510               | Vacant            |                   |
|                   | GS-7              | 510               | Vacant            |                   |
|                   | GySgt.            | 3451              | SSgt.             | 3451              |
| San Diego         | Capt.             | 3415              | MSgt.             | 3451              |
|                   | MSgt.             | 3451              | MSgt.             | 3451              |



|                 |        |      |        |      |
|-----------------|--------|------|--------|------|
| 29 Palms        | Capt.  | 3415 | GS-11  | 343  |
|                 | MSgt.  | 3451 | SSgt.  | 3451 |
| Camp<br>Butler  | GS-9   | 560  | GS-9   | 510  |
|                 | GySgt. | 3451 | SSgt.  | 3451 |
|                 | SSgt.  | 3451 | SSgt.  | 3451 |
| Cherry<br>Point | GS-12  | 510  | GS-12  | 510  |
|                 | GS-11  | 510  | GS-11  | 510  |
|                 | GS-9   | 510  | Vacant |      |
| El Toro         | GS-11  | 510  | GS-11  | 510  |
| Kaneohe         | GS-11  | 510  | GS-11  | 510  |
| Iwakuni         | GS-9   | 510  | Vacant |      |
| Yuma            | GS-9   | 510  | GS-9   | 510  |
| Tustin          | Sgt.   | 3451 | Vacant |      |

Figure 2. Shore Establishment Organization and Staffing





AUTHORIZED

ASSIGNED

| <u>Command</u> | <u>Rank/Grade</u> | <u>MOS/Series</u> | <u>Rank/Grade</u> | <u>MOS/Series</u> |
|----------------|-------------------|-------------------|-------------------|-------------------|
| FMFLANT        | Capt.             | 3406              | Maj.              | 3406              |
|                | MSgt.             | 3451              | GySgt.            | 3451              |
|                | GySgt.            | 3072              | SSgt.             | 3072              |
|                | SSgt.             | 3451              | Sgt.              | 3451              |
|                | Sgt.              | 3451              | Sgt.              | 3400              |
| FMFPAC         | GS-11             | 510               | GS-11             | 510               |
| 1st MARDIV     | 1st LT.           | 3415              | 1st LT.           | 3415              |
|                | GySgt.            | 3451              | SSgt.             | 3043              |
|                | Cpl.              | 3451              | LCpl.             | 3451              |
|                | LCpl.             | 3451              | LCpl.             | 3451              |
| 2nd MARDIV     | 1st LT.           | 3406              | Vacant            |                   |
|                | GySgt.            | 3451              | MSgt.             | 3451              |
|                | Cpl.              | 3451              | Cpl.              | 3451              |
|                | LCpl.             | 3451              | LCpl.             | 3451              |
| 3rd MARDIV     | 1st LT.           | 3415              | 1st LT.           | 3415              |
|                | GySgt.            | 3451              | Vacant            |                   |
|                | Sgt.              | 3451              | Cpl.              | 3451              |
|                | Cpl.              | 3451              | LCpl.             | 3451              |
|                | LCpl.             | 3451              | LCpl.             | 3451              |
|                | LCpl.             | 3451              | LCpl.             | 3451              |
| 1st MAW        | 1st LT.           | 3415              | 1st LT.           | 3415              |
|                | GySgt.            | 3451              | GySgt.            | 3451              |
|                | SSgt.             | 3451              | Vacant            |                   |
|                | Cpl.              | 3451              | Cpl.              | 3451              |
|                | LCpl.             | 3451              | Vacant            |                   |



|             |         |      |         |        |
|-------------|---------|------|---------|--------|
| 2nd MAW     | 1st LT. | 3415 | 1st LT. | 3060   |
|             | GySgt.  | 3451 | GySgt.  | 3451   |
|             | SSgt.   | 3451 | SSgt.   | 3451   |
|             | Cpl.    | 3451 | Cpl.    | 3451   |
|             | LCpl.   | 3451 | LCpl.   | 3451   |
| 3rd MAW     | 1st LT. | 3415 | 1st LT. | 3002   |
|             | GySgt.  | 3451 | 1st LT. | 3415   |
|             | SSgt.   | 3451 | Sgt.    | 3451   |
|             | Cpl.    | 3451 |         | Vacant |
|             | LCpl.   | 3451 |         | Vacant |
| 1st FSSG    | MSgt.   | 3451 | 1st LT. | 3002   |
| 2nd FSSG    | 1st LT. | 3415 | Capt.   | 3415   |
|             | MSgt.   | 3451 | GySgt.  | 3451   |
| 3rd FSSG    | MSgt.   | 3451 |         | Vacant |
| 1st Brigade | GySgt.  | 3451 | GySgt.  | 3451   |
|             | Cpl.    | 3451 | Sgt.    | 3400   |
|             | Cpl.    | 3451 | LCpl.   | 3451   |

Figure 3. Fleet Marine Force Organization and Staffing



## GENERAL STANDARDS

1. The full scope of an audit of a government program, function, activity, or organization should encompass:
  - a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
  - b. A review of efficiency and economy in the use of resources.
  - c. A review to determine whether desired results are effectively achieved.
2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.
4. Due professional care is to be used in conducting the audit and in preparing related reports.

## EXAMINATION AND EVALUATION STANDARDS

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with legal and regulatory requirements.
4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

## REPORTING STANDARDS

1. Written reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits.

Figure 4. GAO Audit Standards



2. Reports are to be timely.
3. Each report shall:
  - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
  - b. Present factual matter accurately, completely, and fairly.
  - c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
  - d. Include only factual information fully supportable by evidence in working papers.
  - e. Include the auditor's recommendations for improvements.
  - f. Place emphasis on improvement rather than criticism.
  - g. Identify issues and questions needing further study.
  - h. Include recognition of noteworthy accomplishments.
  - i. Include the views of management of the organization audited when appropriate.
  - j. Clearly state the scope and objectives of the audit.
  - k. State if any significant information has been omitted because it was privileged or classified.
4. Each audit report containing financial reports shall:
  - a. Contain the auditor's opinion as to whether the information is presented fairly in accordance with accepted accounting principles.
  - b. Contain appropriate supplementary explanatory information about the reports or may be necessary for full disclosure.

Figure 4. GAO Audit Standards





### III. SURVEY AND FINDINGS

This chapter introduces the base case model and presents the data obtained from a survey of Marine Corps internal review functions. First, the base case model is described. Second, the survey technique employed is explained and problem areas reviewed. Third, a graphic display of classified survey data is presented. Fourth, the findings developed from the survey are presented and the reasons for deviations from the specified standards are discussed.

#### A. BASE CASE MODEL

The base case model contained in Appendix A was developed for use as a compliance standard. The standards were selected from the policy directives discussed in Chapter II and from preferred practices contained in the current professional literature. "A preferred practice is one that has been found successful (or a criterion that has been found optimal) through experience, and study of, many entities over a period of years."<sup>37</sup> The preferred practices were selected from two authoritative references on auditing: The Practice of Modern Internal Auditing by Lawrence B. Sawyer, and Auditing in the Public Sector by Felix Pomeranz and others. The preferred practices are not required by regulations. However, compliance with those selected will surely enhance the performance of the internal review function and if incorporated, could improve



procedural directives. The resulting model was intended to be used as an audit program similar to those used by the Naval Audit Service. "An audit program is a guide which defines the audit objectives and provides a general outline of procedures and audit steps to be followed or work to be done in accomplishing an audit."<sup>38</sup>

## B. SURVEY TECHNIQUE

The objective of the survey was to determine the degree of compliance with applicable internal review directives, with preferred practices and to discover the causes of non-compliance. Statistical survey, "an investigation of certain quantitative characteristics of a population" was the technique used to develop the statistical data.<sup>39</sup> Qualitative data was also collected during the survey for an analysis of the causes of non-compliance.

### 1. Population

The population consisted of twenty seven Marine Corps internal review groups. The fifteen shore establishment activities in Figure 2 and the twelve operational activities in Figure 3 represent mission breakdown of the population.

### 2. Sample

Sampling was necessary because of time and resource constraints. A minimum sample goal of 50% of the population was set. The actual sample size was fifteen, or 55%. Sample selection was based on two methods, convenience and judgement. The convenience sample included six of the closest Marine



commands. The judgement sample was selected from nine other Marine commands which would provide an overall representative sample of the total population as to mission type.

### 3. Survey

The survey was designed as an audit program with qualitative compliance test procedures. Questions were selected to test compliance with the standards contained in the base case model. A pretest of the questionnaire was conducted on a local Navy internal review activity to detect problem areas. The twenty five questions in Appendix B are the edited result. Each question has a separate reference from current regulations or preferred practices.

Survey interviews were conducted with both the controller and the head of the internal review group at each activity in the sample. Visits were made to six of the fifteen activities sampled, and telephone interviews conducted with the others. In addition to the questionnaire responses, samples of internal review directives, standard operating procedures, annual programs, working papers and review reports were examined to verify many of the compliance judgements assigned.

There were no major problems encountered in conducting the survey. However, the personal interview technique did present several minor problems. The responses to interview questions, either face to face or over the telephone, are biased to some degree by the uncontrolled nature of the technique.





Also, the time available to ask questions and verify the responses varied between activities and this had some impact on the posing of the questions and recording of the responses.

#### 4. Analysis

The base case model was developed for use as an evaluation standard to determine compliance or non-compliance with applicable directives and preferred practices. Appendix A contains the base case model used in the analysis. Survey responses are evaluated using the base case standards and a subjective compliance judgement was assigned to each. It can be argued that the base case model sets too high a standard for internal review. This may be a valid point but if standards are to be set, it is better that they be too high than too low.<sup>40</sup>

#### 5. Results

The survey produced two types of results; descriptive statistics and qualitative data. Although the sampling technique employed does not allow the use of inferential statistical methods to make inferences about the population, the large sample size does provide a reasonable degree of confidence in the conclusions which result from the descriptive statistics. The qualitative data recorded from the survey interviews also was used in developing the findings and conclusions.

#### C. QUANTITATIVE DATA PRESENTATION

Survey results are displayed in Figures 5 through 8. The data corresponds to the questions in the survey questionnaire





in Appendix B. Since there was no appreciable difference between the responses from Fleet Marine Force and shore establishment activities, the data is not separated for its presentation.

#### D. DATA ANALYSIS

The findings are categorized into four subsections, which correspond to the major areas of the survey. Qualitative data from the survey is discussed here to complement the quantitative data provided in Section C. Data of both types is analyzed and findings relating to the thesis objective are presented.

##### 1. Staffing

Over half of the activities in the survey felt that the current level of staffing authorized was insufficient to accomplish the mission of internal review. The eighty one percent of authorized billets actually filled, noted in Chapter II, further aggravated this perception of inadequate staffing. A number of those interviewed expressed dissatisfaction with the expanded scope of internal review mandated in the new order without commensurate personnel resources. However, only a few had attempted to use part-time personnel on a collateral duty or ad hoc basis as stated in the order. Once the full impact of the new regulation becomes apparent, compliance with the intent of the order will probably require additional personnel assets. These assets will have to be provided by the individual activity. Internal review will have to prove its worth and justify additional resources against many other



competing needs. Assigned personnel were insufficient prior to the new order and unless assignment tradeoffs or part-time personnel can provide more assets, accomplishment of the expanded scope of reviews will probably not be successful.

Staffing data and survey results agree that overall, assigned personnel have the necessary technical qualifications authorized in the tables of organization. The accounting series for civilians with its required college degree or equivalent is excellent preparation for internal review work. However, military training does not prepare personnel as well. Numerous respondees pointed this out in discussing qualifications, especially for enlisted reviewers. With the low average enlisted rank authorized and filled, this is not surprising. Few enlisted personnel had formal training beyond the Fiscal Accounting Course. This entry level course is based on the accounting system for the Fleet Marine Force and offers little preparation for shore establishment internal review assignments. On-the-job training is expected to provide enlisted personnel with most of the needed skills. However, the usual absence of a structured training program along with rapid assignment turnovers serve to make this process unpredictable. Officer reviewer's qualifications were the subject of fewer complaints. In spite of having the lowest percent of authorized MOS holders assigned, officer entry level education requirements appeared to compensate for the shortcoming. Given the level of complaints that enlisted reviewers were unquali-



fied, a study of MOS requirements may be justified. MOS 3451 covers a broad area and may be too general for the needs of internal review. The non-existence or lack of quality in working papers found did not reflect favorably on the competence of the assigned personnel. Low compliance was due to over-reliance on checklists primarily, instead of working papers. Checklists serve as a useful scorecard for financial and compliance audits but do not provide the proper documentation and support for recommending corrective actions in economy/efficiency and program results audits. The Marine Corps directive specifies the GAO standards will be used as a guide in working paper preparation. Although little evidence was found that this was being followed, it was difficult to blame personnel competence alone.

The survey results indicate that adequate training of internal review personnel is not being provided on a continuing basis. Few activities have a plan or program for formal, informal, or correspondence training. Training opportunities are accepted in most cases as they occur instead of being planned and budgeted. A lack of information on external training availability was frequently given as justification. Few internal review groups had any systematic organizational training, other than the on-the-job type, available to improve them professionally. Also participation in professional associations related to auditing, accounting and internal review is not being actively encouraged.





Supervision of the internal review function varies widely as to technique and adequacy. Within the public sector, the function offers an unusual opportunity for the use of modern management techniques. Goals and objectives based on the annual program, required by the Marine Corps order, could be used by the supervisor to measure output, to evaluate performance and make resource allocation decisions, among other things. Numerous desires for more feedback were expressed by reviewers but no example of "management by objectives" (MBO) was encountered. All activities have written job descriptions for civilians but military personnel have to rely on standard operating and desk top procedures, when available, for written job guidance. In spite of repetitious reviews of the same areas, many activities have not developed written audit programs or check lists to improve the quality and uniformity of reviews. Work performance is not being systematically evaluated in most cases. Most supervisors did participate in the development of the annual internal review program but only a few used it to monitor execution.

## 2. Organization

Seventy three percent of the survey activities had some form of local regulation chartering internal review. These regulations take the form of a separate Standard Operating Procedure (SOP), a base or organizational order, or a chapter in the activities financial management SOP. The activities without a formal regulation all had one in the





process of development of what the author felt were adequate informal procedures.

Only two of the activities attempt to avoid intentional duplication of NAVAUDSVC efforts. Practically speaking, this is hard to insure because specific audit projects are not known until the NAVAUDSVC visits the activity and conducts an audit survey. Internal review has no way of knowing in advance which areas to avoid. Although listed as an objective in NAVAUDSVC Audit Program Number 32, on internal review, the audit steps do not address how it is to be accomplished.

In concept, internal review should be completely independent in reporting its findings to the commander. Such a determination is hard to make, especially in a survey. Policy requires the function to be located under the comptroller but excluded from his line operations. This relationship does not necessarily promote independence. The variables of personality and management style further cloud the question of independence. One veteran NAVAUDSVC auditor said the test should be "who gets the report?"<sup>41</sup> Using this criteria, none of the activities would be in compliance because none of the reports went directly to the commander. The quantitative data reflects the use of a more liberal criterion which allows the report to pass through the comptroller and/or the chief of staff on its way to the commander, as long as it is not rewritten in the process. The author considered this to be a reasonable compromise.



Independence of internal review is also affected by two other factors. First, the question of conflict of interest is stressed more in the private sector but could also be a problem in government. Civil service employees do in fact sign a conflict of interest statement but military reviewers are not required. The second factor, the question of internal review having its own budget, was not considered critical to independence by those surveyed. None of the activities indicated that a problem existed in either area but greater compliance with both standards would help the credibility of the function.

### 3. Work Performance

The base case standard for this area was developed primarily from Navy and Marine Corps directives and NAVAUDSVC audit programs. In spite of the required nature of the standards, the survey indicates considerable non-compliance in three key areas. The first area is the annual internal review program required by the Marine Corps order. All activities have a program but ninety-three percent fall short of the standard in some respect. Problem areas included:

- Audit projects considered "mandatory" by NAVAUDSVC in detecting and preventing fraud and waste were not included.
- Many traditional audit coverage areas were not included.
- Priority was not given to pending projects.



- Priority was not given to findings from external audit agencies.
- No input from other staff elements and subordinate units was used in developing the program.
- Part-time reviewer requirements and tasking were not specified.
- Non-financial audit projects were being rarely programmed. Data processing, as an example, was not reviewed by a single internal review group in the Marine Corps in the last six months, according to the latest Inspector General Act report.
- Review projects lacked clear objectives and scope.
- Manhours programmed and milestones were not stated.
- Review projects were not prioritized.
- The commander was not approving the program as required.

The second key area of non-compliance was audit coverage.

Reasons for non-compliance were:

- A failure to use standardized NAVAUDSVC audit programs.
- A failure to complete the audit program.
- Programs did not include mandatory projects.
- Priority projects in the program were not completed.

The third key area was evaluated at total non-compliance. The working papers produced by all the internal





review groups surveyed failed to meet the GAO standards as required. Besides being a fact-finder, the internal reviewer is responsible for recommending corrective action for deficiencies found. Proper working papers support and facilitate good analysis and recommended solutions. Good working papers will be even more essential as the new full scope of internal review is employed. Reports on compliance with regulations may require only a simple checklist as documentation. However, reports recommending solutions to uneconomical or inefficient practices or to ineffective programs require more. Without good and sufficient documentary evidence to support the findings and recommendations, the report is of marginal value to the command.<sup>42</sup>

#### 4. Reporting

Reporting is the final subsection to be covered in the survey findings. It is an important area and enjoyed the highest percent of compliance evaluation in the survey. There were, however, several weaknesses noted. First, a low percent of respondents said that the commander got involved in correcting deficiencies reported. Internal review is implicit in the commander's responsibility for the proper administration of resources in their charge. Lack of involvement in corrective actions could result from two causes. Either the commanders lack concern, or the reports are not effective in informing them of the problem and the recommended solution. The latter is probably the case but this could not be verified.





A second weakness was the universal failure to dollarize findings where practical. Dollarization is the process of expressing the effect of an operational controls deficiency in terms of money.<sup>43</sup> Although as yet not required by regulation, this preferred practice would improve internal review's ability to communicate the magnitude of its findings to the commanders, their staffs and subordinates. With this added information the commanders could better determine which corrective actions require a priority.

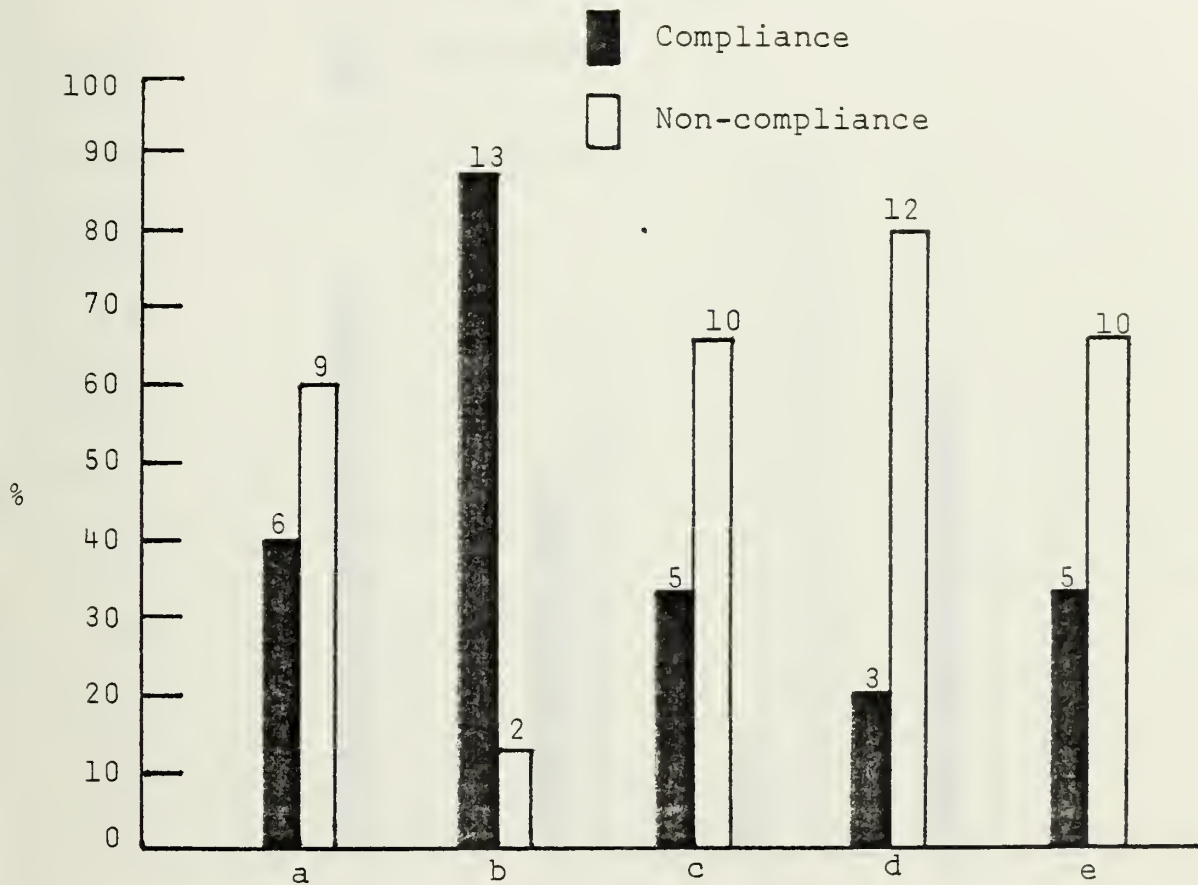
The last finding concerns responses to internal review reports. For the reports to be effective any discrepancy should be acknowledged and corrected. A written acknowledgment and plan of action from the reviewee is preferable to less formal procedures. Two thirds of the internal review groups surveyed did not require a written response from the reviewee. Most of the non-compliance was found in operating units. The rapid frequency of reviews was often used as justification by these activities. Although it is true that reviews in operational units are conducted on a more frequent cycle, written responses by the reviewee is the preferred practice standard. This indicates the activities' recognition of the problem and identifies the course of action intended by management.

The quantitative data from the survey reveals that overall, almost 50% of the base case standards were being met. Findings were not weighted and obviously some were more important than others. Accordingly, each question should be



considered individually and not aggregated. Those findings discussed above were considered to be the significant ones worthy of amplification with qualitative information.

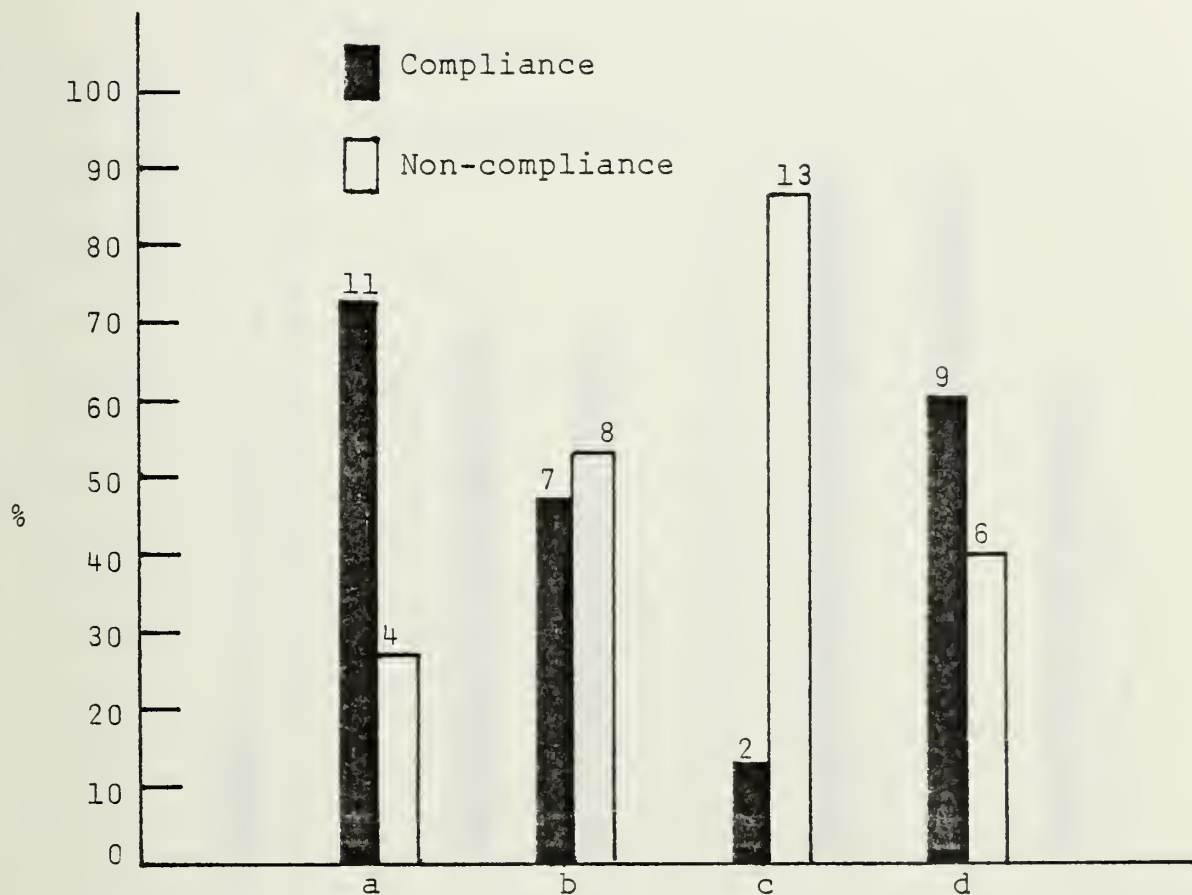




- a. Are sufficient personnel assigned to accomplish the intent of internal review?
- b. Do assigned personnel have the necessary technical qualifications authorized?
- c. Do the working papers reflect the necessary technical competence?
- d. Is adequate training provided on a continuing basis?
- e. Is adequate supervision provided?

Figure 5. Staffing



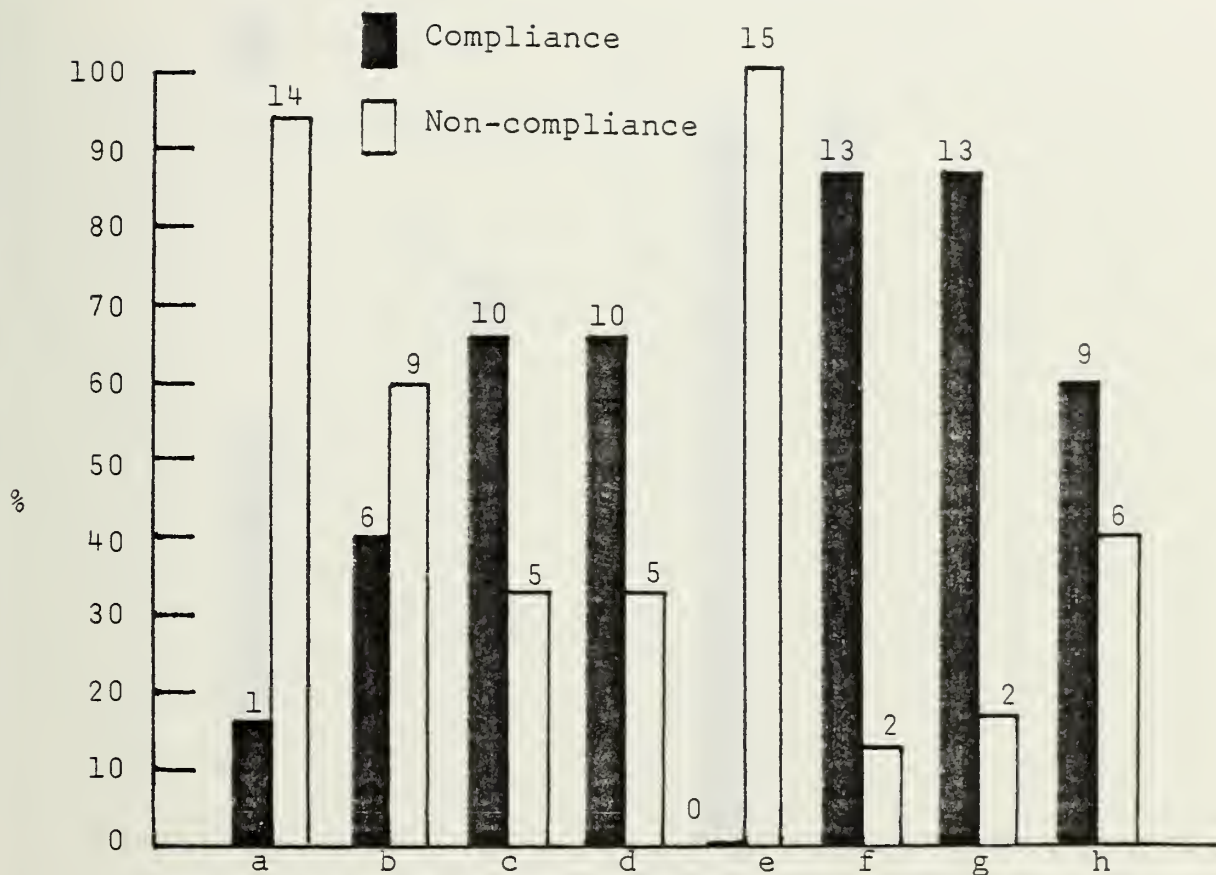


- a. Is internal review authorized in a local regulation?
- b. Does internal review have its own budget?
- c. Have steps been taken to avoid intentional duplication with NAVAUDSVC activities?
- d. Does the internal review staff have complete independence in order to make recommendations free of pressures from other management personnel?

Figure 6. Organization



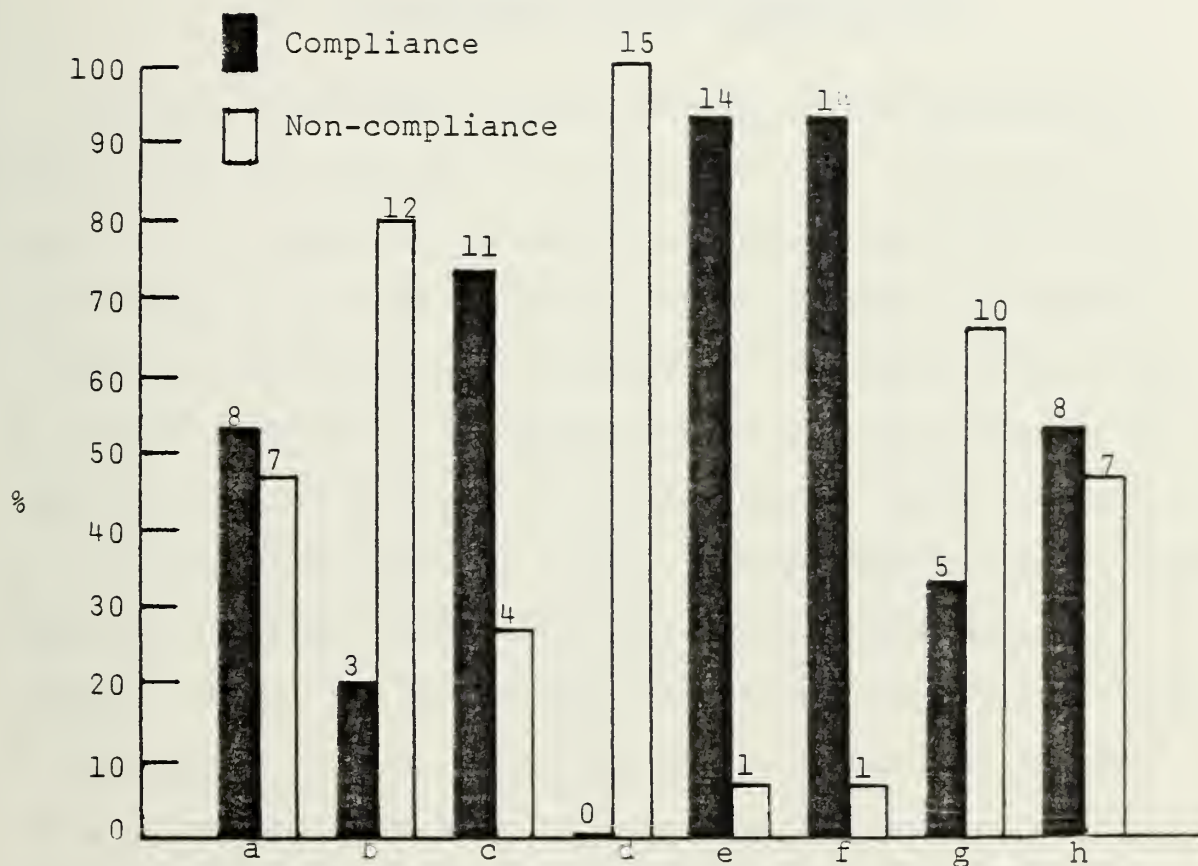




- a. Is there an annual internal review program that ensures scheduling of those areas of mandatory and traditional audit coverage and allows for operational studies and reviews especially in area that may lend themselves to fraud or waste?
- b. Is the audit coverage of functional areas performed by internal review satisfactory?
- c. Does internal review accomplish the required audit liaison and follow-up actions?
- d. Are internal reviews performed properly?
- e. Do the working papers properly document the reviews?
- f. Are internal review programs and objectives revised to reflect changing conditions?
- g. Are internal review activities directed toward appropriate projects rather than clerical tasks?
- h. Does internal review provide orientation training on the provisions of R.S. 3679 to newly assigned personnel who will be dealing with appropriated funds?

Figure 7. Work Performance





- a. Are internal review findings and recommendations reported to the commander properly?
- b. Does the commander get involved in correction of reported deficiencies?
- c. Does internal review enjoy the support and acceptance of the commander?
- d. Are findings dollarized where practical?
- e. Are findings usually accepted?
- f. Are recommendations usually accepted?
- g. Do internal review reports require a response by the reviewee?
- h. Are reports followed up as to whether deficiencies are corrected and recommendations considered?

Figure 8. Reporting



#### IV. CONCLUSIONS AND RECOMMENDATIONS

Chapter IV presents the conclusions and recommendations derived from the analysis of survey results. Conclusions of significance, based on the degree of compliance with the base case standards and the causes of non-compliance, are stated for the four main parts of the survey. Staffing of the internal review function is addressed first; with the adequacy and qualifications of internal review personnel, their training and supervision as specific topics. Next, organizational topics regarding internal review's authority and independence are covered. Third, the performance of internal review functions is evaluated. Finally, reporting of the results of internal review's work is addressed. The conclusions arrived at are the basis for the recommendations offered at the end of the chapter.

##### A. STAFFING

###### 1. Sufficiency of Assigned Personnel

Eighty-one percent of authorized billets were filled in September 1979. However, the new Marine Corps directive expanding the scope of the function had just been published. It is anticipated that the billets previously authorized will be, by themselves, inadequate in the future. In fact, only forty percent of those activities surveyed were satisfied with the staffing level they had at the time. In their opinion,





this level of satisfaction will probably drop more as government wide interest in the campaign against fraud and waste intensifies and increasing demands are placed on internal review groups.

While internal review groups felt they were understaffed, they were universally reluctant to use part-time reviewers from outside the internal review organization. Marine Corps policy clearly states that this alternative will be used instead of increasing permanent billets. Although more difficult to manage, increased use of ad hoc, collateral duty and adjacent command personnel on a part-time basis must be attempted before it can be stated that personnel resources are sufficient or not.

## 2. Technical Qualifications

Almost all assigned personnel had the required technical qualifications. However, many activities questioned the adequacy of the requirements for the enlisted military occupational specialty (MOS). They felt the training was insufficient to produce a basic internal review worker. Given the demonstrated weakness in working papers and the new scope of the internal review function it would seem wise to review the enlisted MOS requirements and also officer and civilian training requirements in order to determine what adjustments are needed. In the author's opinion, internal review personnel will function more like auditors than troubleshooters in the future and will need the skills to match the task.





### 3. Training

Adequate training of internal review personnel is not being provided on a continuing basis. The survey determined that only twenty percent of the activities met the compliance standard. The normal reason given was either a lack of resources or training opportunities. Adequate resources must be made available for training of reviewers. Failure to do so would be shortsighted, especially with the increasing demand for more sophisticated review services. The Comptroller of the Navy (NAVCOMPT) has the responsibility to "insure that adequate training and supplementary technical support is made available."<sup>44</sup> The training opportunities are available: through formal schools, correspondence courses, in-house organizational resources, civilian schools, and participation in professional associations.<sup>45</sup> Continuous training must be recognized as essential, and in addition it must be planned for and supported.

### 4. Supervision

From the perspective of the internal review personnel surveyed, supervision of the function is inadequate. Two thirds of the internal review groups complained about a lack of feedback on performance. Unlike most public sector functions, internal review has reasonably quantifiable standards and measures of performance for appraising the completed job. The required annual internal review program is tailor made as the basis for a management by objective (MBO) system. The



active use of such a system would, by its nature, probably alter the perception of inadequate supervision that was voiced. An overview of the MOB technique as it relates to auditing is contained in Appendix C.<sup>46</sup>

## B. ORGANIZATION

### 1. Independence

As presently organized, internal review lacks creditability as an independent function. The concept of independence used in the base case standard required that it be real as well as perceived independence. In spite of seventy-three percent being chartered locally and almost half having their own budget, internal review groups were not perceived as an unbiased, objective, and independent organization with free access to the commander. Even though in accordance with Marine Corps and Navy policy, the function's location in the office of the comptroller probably amounts to a fatal flaw. However, given the organizational realities of today's Marine Corps, no better location was proposed by those surveyed. Although desirable in concept, a truly independent internal review function is considered a remote possibility at best under the current policy.

### 2. Authority

Internal review groups have sufficient authority to accomplish their roles. All surveyed activities had some form of regulation at the local or higher level which chartered the function. However, true authority is determined by



the support and backing received from the commander. The comptroller plays an important part in obtaining the support and backing needed and the organizational location of internal review helps him provide it. A high percentage of the comptrollers surveyed felt that internal review had the necessary command support and authority to accomplish the intent of the regulations.

### C. WORK PERFORMANCE

#### 1. Annual Internal Review Program

Annual internal review programs did not adequately ensure the scheduling of the necessary reviews. Ninety-three percent noncompliance was observed. Little agreement among activities surveyed was found as to what was considered necessary. The standard applied was basically the applicable Navy Audit Service (NAVAUDSVC) audit program which emphasizes the identification of deficiencies or inefficiencies that may lead to fraud and waste. Failure to schedule reviews of these areas was due mainly to a lack of familiarity with the NAVAUDSVC standardized audit programs. The audit program on internal review, Number Thirty-two, identifies those reviews which the NAVAUDSVC considers mandatory in countering fraud and waste; such as civilian payroll and time keeping, accountability and control of plant property, procurement, supply management and management of transportation equipment.

#### 2. Working Papers

Judged by the General Accounting Office (GAO) standards,





working papers failed to properly document reviews at all the activities surveyed. While the common use of checklists instead of working papers is effective for fiduciary and compliance reviews, it is insufficient for economy/efficiency or program results reviews. Since the latter two types are now part of the scope of internal review, the proper use of working papers should receive more attention.

#### D. REPORTING

##### 1. Effectiveness of Reports

Internal review reports were considered ineffective in over one half the activities surveyed. This evaluation is based on four criteria. To be effective the report must first be received by the commander. Second, the report must effectively communicate the problem and its magnitude. Thirdly, procedures must exist to ensure that the report's recommendations are acknowledged by the reviewee. Finally, a follow-up check must be conducted by internal review to determine what action, if any, was taken to correct the problem.

Only fifty-three percent of the activities correctly reported the results of reviews to the commander. None of the surveyed activities regularly attempted to dollarize review findings. This helps to explain the low number, twenty percent, who reported that the commander got involved in corrective actions. Effective reports which dollarize the magnitude of the problem should better gain his attention and involvement. Two thirds of those surveyed said they had no procedure to





ensure that reviewees acknowledged the reports in writing. This is considered a major weakness which could be easily corrected. Finally, almost one half of the activities had no follow-up procedure to check on corrective action. A rough aggregation of the survey findings in these four areas results in an evaluation of only forty percent compliance.

#### E. RECOMMENDATIONS

##### 1. Staffing

a. Commands should utilize all of the personnel resources presently available, both full and part time, in order to effectively accomplish the intent of internal review. Since current policy precludes additional billets being authorized, the present reluctance to use part time reviewers must be overcome as this is the most logical alternative available to satisfy the increased workload.

b. The technical requirements for internal review billet qualification should be reexamined. In view of the new scope of the function, a review of officer, civilian and especially of enlisted qualification requirements should be undertaken.

c. Internal review groups must be given continuous professional training. Present demands on the function require that new skills be learned and old ones be sharpened if internal review groups are to keep up with their expanding role. Training must be programmed and resources provided to take advantage of the numerous courses available. The courses



sponsored by NAVCOMPT and the Inter-agency Audit Training Center are especially recommended.

d. Supervision of internal review functions should be improved, and adoption of a formalized MBO technique such as the one presented in Appendix C considered.

## 2. Organization

The real and perceived independence of internal review should be continually reinforced through demonstrated command support of the function. The commander and the comptroller should use every opportunity to emphasize the objectivity, and unbiased and trusted position of internal review.

## 3. Work Performance

a. The annual internal review program is a key element in the successful operation of the function. It must be carefully developed to cover the priority areas in need of review, especially those highly subject to fraud and waste. Once approved by the commander, the plan should serve as the primary management tool for the supervision of the function.

b. The correct preparation and use of working papers to properly document and structure reviews must be accomplished. The GAO standards should be used as required by Marine Corps policy. The new scope of internal review will place greater and greater importance on working papers as a documentation tool.

## 4. Reporting

Internal review reports must be more effective in communicating to the commander and to the reviewee whether opera-



tions are in compliance with regulations, are economical and efficient, and the degree to which intended results are accomplished. They must provide a measure of the problem's magnitude, as well as recommendations for corrective action. Also, procedures must ensure that findings are acknowledged and that the necessary follow-up actions are taken.



## APPENDIX A

### BASE CASE MODEL

#### 1. Staffing

a. Ensure that sufficient numbers of personnel are assigned to accomplish the intent of internal review. (SECNAVINST 7510.8)

(1) Permanently assigned personnel:

| Authorized        |                   | Available         |                   |
|-------------------|-------------------|-------------------|-------------------|
| <u>Rank/grade</u> | <u>MOS/series</u> | <u>Rank/grade</u> | <u>MOS/series</u> |

(2) Temporarily assigned personnel: Are temporarily assigned personnel made available with the particular expertise required for internal review tasks? (MCO 7540.2A)

(3) Are assigned internal review personnel sufficient to provide support to all command organizations as well as any tenant organizations without an internal review component? (MCO 7540.2A)

b. Determine whether assigned personnel have the necessary technical qualifications authorized. (SECNAVINST 7510.8)

(1) Civilian: GS-510, Accounting series

(2) Military: 3406, Financial Accounting Officer  
3415, Financial Management Officer  
3451, Accounting Technician

c. Determine if the working papers reflect the necessary competence. (Pomeranz-96)

- (1) Financial accounting
- (2) Auditing procedures
- (3) Accounting systems review
- (4) Statistical sampling
- (5) Knowledge of regulations
- (6) ADP controls

d. Determine whether adequate training is provided on a continuing basis. (SECNAVINST 7510.8)

- (1) Is training within internal review organization conducted?
- (2) Is training within comptroller organization conducted?
- (3) Does a formal school training program exist?
- (4) What formal school training was used in last year?

NAVCOMPT \_\_\_\_\_  
IATC \_\_\_\_\_  
PCC \_\_\_\_\_  
Other \_\_\_\_\_





(5) What correspondence training was used in last year?

NAVEDTRA \_\_\_\_\_

ALMC \_\_\_\_\_

MCI \_\_\_\_\_

(6) Are records of training maintained?

(7) Membership and participation in professional associations? IIA, AGA, AICPA, ASMC, Toastmaster, etc.

e. Evaluate the adequacy of supervision provided. (SEC-NAVINST 7510.8)

(1) Does internal review have: (Pomeranz-95)

Goals and objectives

A policy and procedures manual

Written audit programs

Standards of field work

Job descriptions

(2) Is the performance of the internal review staff periodically evaluated? (Pomeranz-96)

(3) Are internal review working papers reviewed periodically? (Pomeranz-100)

## 2. Organization

a. Determine if internal review is authorized in a local regulation. (Pomeranz-94)

b. Determine if internal review has its own budget. (Pomeranz-94)

c. Ensure that steps have been taken to avoid intentional duplication with NAVAUDSVC activities. (SECNAVINST 7510.8)

d. Determine if the internal review staff has complete independence in order to make recommendations free of pressures from other management personnel. (SECNAVINST 7510.8)

(1) Is internal review located in comptroller's staff?

(MCO 7540.2A)

(2) Is internal review excluded from the comptroller's line operations? (MCO 7540.2A)

(3) Are internal review reports subject to significant change before submission to the Commander? (MCO 7540.2A)

(4) Have policies been established to determine that internal review staff is free of conflicts of interest? (Pomeranz-95)

Related party transactions

Partisan political offices

Participation in employee bargaining groups

(5) Do policies require that internal review personnel update and sign conflict of interest statements? (Pomeranz-95)

e. Determine if internal review has direct access to command when circumstances warrant. (SECNAVINST 7510.8)

(1) Are internal review reports periodically briefed to the Commander? By whom? (MCO 7540.8)



- (2) Does internal review have a mechanism to communicate with command if circumstances warrant? Is it official policy? (SECNAVINST 7510.8)
- (3) Do all members of the command have procedures available to them for reporting uneconomical, wasteful and inefficient conditions or for reporting fraud?
- (4) Is internal review allowed to cross functional or organizational lines freely? (MCO 7540.2A)

### 3. Work Performance

a. Determine if there is an annual internal review program that ensures scheduling of those areas of mandatory and traditional audit coverage and allows for operational studies and reviews especially in areas that may lend themselves to fraud or waste. (NAS-32)

- (1) Is there an annual internal review program? (MCO 7540.2A)
- (2) Does the annual internal review program include "mandatory" audit coverage? (MCO 7540.2A & NAS-32)
  - Civilian payroll and timekeeping (NAS-2)
  - Accounting & control of plant property & other Naval property (NAS-6)
  - Procurement and supply management (NAS-8,10a,10b,&12)
  - Management of transportation equipment (NAS-27)
- (3) Does the annual internal review program include traditional audit coverage? (NAS-32)
  - Appropriation and Fund reviews (NAS-35)
  - Small purchases (NAS-10a)
  - Food Services (NAS-15)
  - Packing, transportation and storage of household goods (NAS-23)
  - Contract administration (NAS-10b)
  - Budgeting (NAS-7)
  - Energy conservation (NAS-37)
  - Privacy Act (NAS-40)
  - ADP (NAS-19)
  - Cost reduction program (SECNAVINST 7510.8)
  - Financial reports (SECNAVINST 7510.8)
  - Inventory accounting (NAS-8)
- (4) Does the annual internal review program give priority to incomplete but revalidated projects from previous fiscal years? (MCO 7540.2A)
- (5) Does the annual internal review program also give priority to deficiencies of an urgent nature from external audit reports during the fiscal year? (MCO 7540.2A)
- (6) Does the annual internal review program give next priority to those projects noted in audit or other management reports but of a less urgent nature? (MCO 7540.2A)
- (7) During development of the annual internal review program is the following included? (MCO 7540.2A)
  - Opportunity for input from all staff and subordinate elements?



Sufficient reserved time for accommodating urgent review requirements unforeseen at the time of program development, 20% minimum?

Specification of ad hoc expertise needed from outside the internal review organization for specific reviews?

(8) Does each internal review project in the annual program contain: (MCO 7540.2A)

Requesting staff office and point of contact?

Reason for conducting the review?

Internal review objectives and scope of examination?

As appropriate, a brief summary or checklist of required review procedures?

Scheduled event milestones and estimated manhours required?

Previously noted deficiencies when appropriate?

(9) Is the annual internal review program prioritized?

(MCO 7540.2A)

(10) Is the annual internal review program approved by the C.O.? (MCO 7540.2A)

b. Determine if the audit coverage of functional areas performed by internal review is satisfactory. (NAS-32)

(1) Does internal review make use of NAVAUDSVC standardized audit programs? (NAS-32)

(2) Are reviews planned so that complete systems or departments are covered rather than small segments? (Pomeranz-97)

(3) Are mandatory review projects covered? (NAS-32)

(4) Are priority review projects covered? (MCO 7540.2A)

c. Determine if internal review accomplishes audit liaison and follow-up actions. (MCO 7540.2A)

(1) Is internal review the point of contact for external audits or reviews? (MCO 7540.2A)

(2) Is internal review thoroughly familiar with appropriate directives? (MCO 7540.2A)

(3) Does internal review notify appropriate staff offices of a pending visit by an external audit agency and provide information available? (MCO 7540.2A)

(4) Does internal review provide necessary assistance to external audit agencies? (MCO 7540.2A)

(5) Does internal review ensure accepted deficiencies noted in external audit reports are corrected within a reasonable time thereafter? (MCO 7540.2A)

(6) Does internal review maintain a formal follow-up system to monitor each audit recommendation where corrective action is promised? RSIC too? (MCO 7540.2A)

(7) Does internal review provide follow-up assistance when requested? (MCO 7540.2A)

(8) Does internal review maintain sufficient documentation in the audit file to ensure that corrective actions on audit deficiencies have been taken? (MCO 7540.2A)





(9) Does internal review record keeping and monitoring of external audit follow-up subvert the primary mission of internal review? (SECNAVINST 7510.8)

d. Determine if internal review is performed properly. (MCO 7540.2A)

(1) Do internal reviewers familiarize themselves with the functional area prior to a review, applicable directives, plans, policies and required internal control features? (MCO 7540.2A)

(2) Is advanced notification of the review provided to command staff officers? (MCO 7540.2A)

(3) Is an initial meeting with operating officials held prior to the review to explain the purpose, scope, and estimated duration of the review? (SECNAVINST 7510.8)

(4) Are the objectives of reviews accomplished as stated in the annual program? (MCO 7540.2A)

(5) Does internal review keep management personnel of the activity being reviewed fully informed of the review results and give them the opportunity to comment on findings as they are developed? (MCO 7540.2A)

(6) Does internal review have instructions for action to be taken when possible fraud, misappropriation of resources or funds, or suspected criminal actions are uncovered? (MCO 7540.2A)

(7) Is evidence examined to ensure that operational and accounting controls are functioning effectively? (Pomeranz-98)

(8) Does the internal review include examination of sufficient, accurate, and relevant evidence to afford a reasonable basis for the opinions, conclusions and recommendations? (Pomeranz-98)

(9) Is an exit conference held with responsible operating officials to discuss the findings? (SECNAVINST 7510.8)

(10) Are comments from operating officials made at the exit conference considered in preparing the final report? (SECNAVINST 7510.8)

e. Determine if the working papers properly document the reviews. (MCO 7540.2A & GAO Standards)

(1) Are they complete and accurate?

(2) Are they clear and understandable?

(3) Are they legible and neat?

(4) Do they contain only matters materially important, pertinent and useful with reference to the established objectives?

f. Determine if internal review programs and objectives are revised to reflect changing conditions. (Pomeranz-97)

g. Ensure internal review activities are directed toward appropriate projects, rather than clerical tasks. (Pomeranz-97)





h. Ensure that internal review provided orientation training on the provisions of R.S. 3679 to newly assigned personnel who will be dealing with appropriated funds. (MCO 7540.2A)

#### 4. Reporting

- a. Determine if internal review findings and recommendations are reported to the Commander properly. (MCO 7540.2A)
- (1) Does the report clearly explain the scope and objectives of the review?
  - (2) Is the report objective and unbiased?
  - (3) Are causes of deficiencies carefully evaluated?
  - (4) Are the findings supported by facts in the working papers?
  - (5) Is the report clear, void of acronyms, jargon and technical language?
  - (6) Are internal review findings and recommendations communicated to the Commander as quickly as possible, 30 days max.?
  - (7) Are recommendations practical?
  - (8) Do recommendations provide a plan of action for solving each deficiency?

b. Determine if the Commander gets involved in correction of reported deficiencies. (MCO 7540.2A)

c. Determine if internal review enjoys the support and acceptance of the Commander. (Sawyer-23)

d. Determine if findings are dollarized. (Pomeranz-100)

e. Determine if findings are usually accepted. (Pomeranz-100)

f. Determine if recommendations are usually accepted. (Pomeranz-100)

g. Determine if internal review reports require a written response by the reviewee. (Pomeranz-100)

h. Determine if reports are followed up as to whether deficiencies are corrected and recommendations considered. (Pomeranz-100)

- REF: (1) SECNAVINST 7510.8, Internal Review in the Department of the Navy
- (2) MCO 7540.2A, Internal Review
- (3) (NAS) NAVAUDSVC Notice 7500, Audit Program Series
- (4) Pomeranz, and others, Auditing in the Public Sector, Warren, Gorham & Lamont, 1976.
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APPENDIX B

INTERNAL REVIEW IN THE U.S. MARINE CORPS -  
SURVEY QUESTIONNAIRE

| Questions  | Remarks |
|--|---------|
| 1. <u>Staffing</u>   |         |
| a. Are sufficient personnel assigned to accomplish the intent of internal review? (SECNAVINST 7510.8)  |         |
| b. Do assigned personnel have the necessary technical qualifications? (SECNAVINST 7510.8)  |         |
| c. Do the working papers reflect the necessary technical competence? (Pomeranz-96)   |         |
| d. Is adequate training provided on a continuing basis? (SECNAVINST 7510.8)  |         |
| e. Is adequate supervision provided? (SECNAVINST 7510.8)   |         |
| 2. <u>Organization</u>   |         |
| a. Is internal review authorized in a local regulation? (Pomeranz-94)  |         |
| b. Does internal review have its own budget? (Pomeranz-94)   |         |
| c. Have steps been taken to avoid intentional duplication with NAVAUDSVC activities? (SECNAVINST 7510.8)   |         |
| d. Does the internal review staff have complete independence in order to make recommendations free of pressures from other management personnel? (SECNAVINST 7510.8)   |         |
| 3. <u>Work Performance</u>   |         |
| a. Is there an annual internal review program that ensures scheduling of those areas of mandatory and traditional audit coverage and allows for operational studies and reviews especially in areas that may lend themselves to fraud or waste? (NAS-32) |         |



| Questions | Remarks |
|-----------|---------|
|-----------|---------|

b. Is the audit coverage of functional areas performed by internal review satisfactory? (NAS-32)

c. Does internal review accomplish the required audit liaison and follow-up actions? (MCO 7540.2A)

d. Are internal reviews performed properly? (MCO 7540.2A)

e. Do the working papers properly document the reviews? (MCO 7540.2A)

f. Are internal review programs and objectives revised to reflect changing conditions? (Pomeranz-97)

g. Are internal review activities directed toward appropriate projects, rather than clerical tasks? (Pomeranz-97)

h. Does internal review provide orientation training on the provisions of R.S. 3679 to newly assigned personnel who will be dealing with appropriated funds? (MCO 7540.2A)

#### 4. Reporting

a. Are internal review findings and recommendations reported to the Commander properly? (MCO 7540.2A)

b. Does the Commander get involved in correction of reported deficiencies? (MCO 7540.2A)

c. Does internal review enjoy the support and acceptance of the Commander? (Sawyer-23)

d. Are findings dollarized where practical? (Pomeranz-100)

e. Are findings usually accepted? (Pomeranz-100)

f. Are recommendations usually accepted? (Pomeranz-100)

g. Do internal review reports require a written response by the reviewee? (Pomeranz-100)

h. Are reports followed up as to whether deficiencies are corrected and recommendations considered? (Pomeranz-100)



- REF:
- (1) SECNAVINST 7510.8, Internal Review in the Department of the Navy.
  - (2) MCO 7540.2A, Internal Review.
  - (3) (NAS) NAVAUDSVC Notice 7500, Audit Program Series.
  - (4) Pomeranz, and others, Auditing in the Public Sector, Warren, Gorham and Lamont,.1976.
  - (5) Sawyer, L.B., The Practice of Modern Internal Auditing, The Institute of Internal Auditors, Inc., 1973.



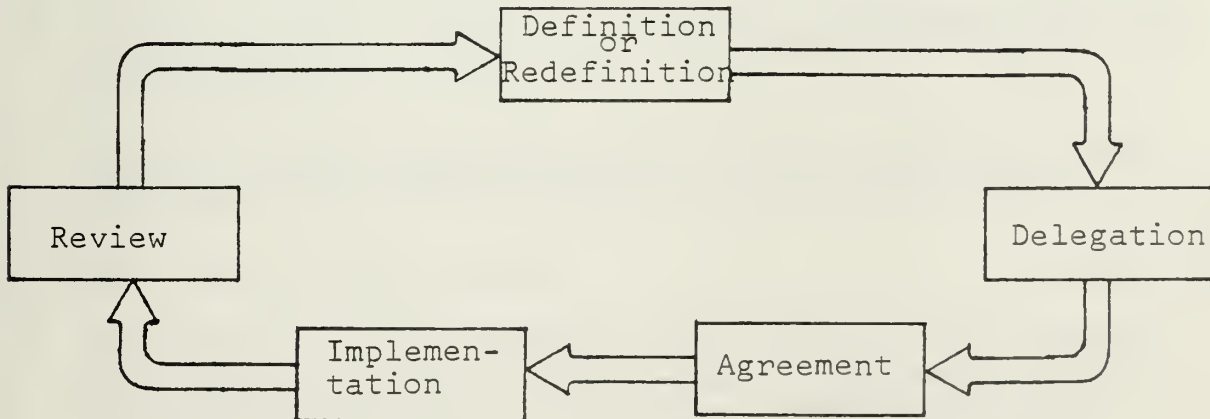


APPENDIX C  
MANAGEMENT BY OBJECTIVES (MBO)

Management by Objectives is a management technique developed by Peter F. Drucker in his book The Practice of Management. The essential elements or stages of the MBO cycle are:

1. The definition of organizational goals by management.
2. The delegation of such goals down the hierarchy.
3. The agreement by superiors and subordinates as to the subordinates' responsibilities in the direction of the established goals.
4. The implementation of such agreements.
5. A review of results.

Graphically the MBO cycle may be shown as below:

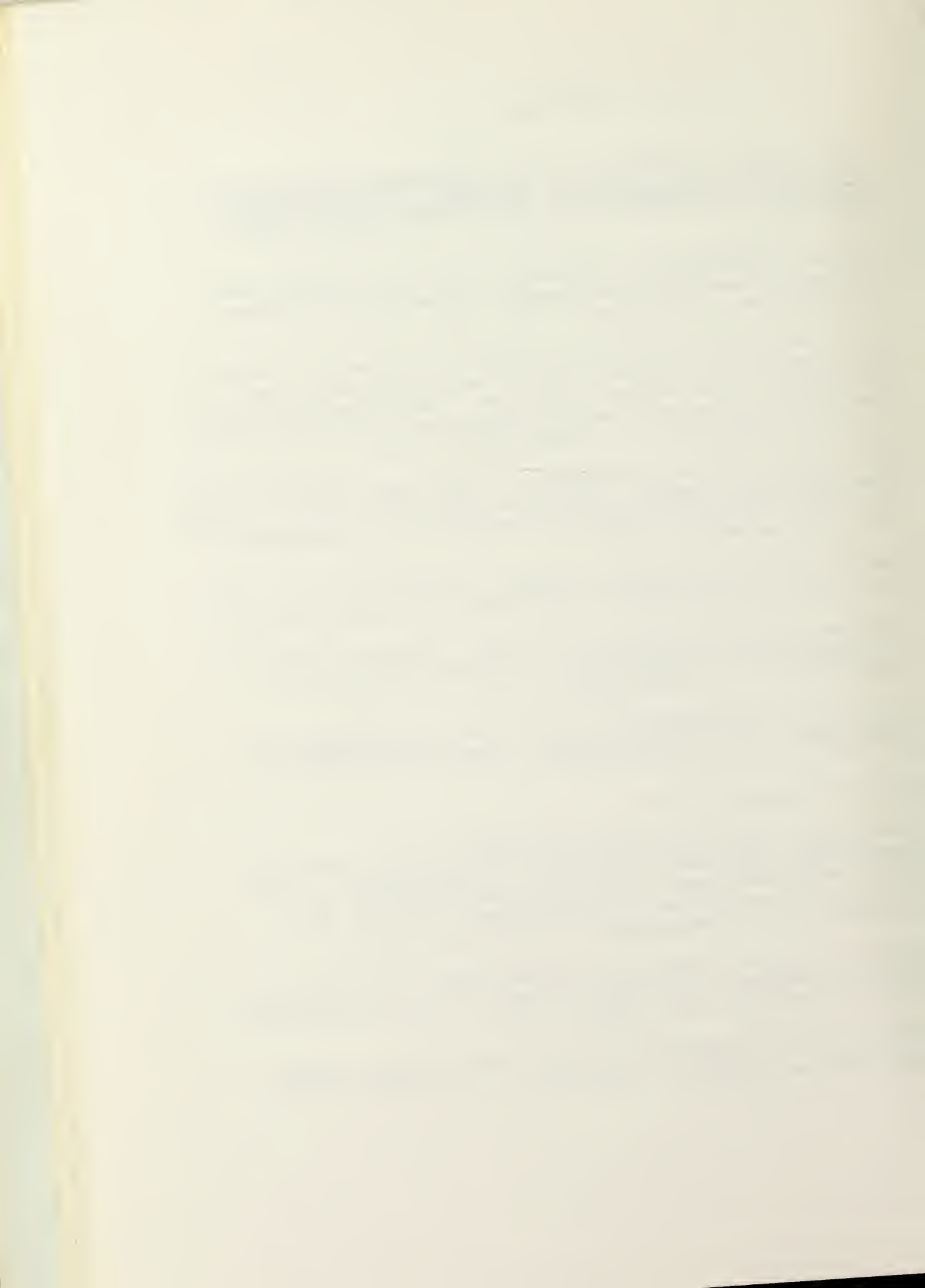


Source: Pomeranz, Cancellieri, Stevens, and Savage; Auditing in the Public Sector.



## FOOTNOTES

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4. Hon. Jack B. Brooks, "Remarks of Congressman Brooks Before the Washington Chapter of ASMC on Sept. 25, 1979." Speech. American Society of Military Comptrollers, Washington, D.C.: 25 September 1979.
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9. Memorandum from Secretary of the Navy for the Assistant Secretary of Defense (Comptroller), "Department of the Navy Semiannual Report of Audit, Investigative and Inspection Activities for the period 1 October 1978 - 31 March 1979," Washington: 30 April 1979, p. 5.
10. John F. Dennis, Major, U.S. Marine Corps, "A Study of Internal Review," Unpublished Thesis, Naval Postgraduate School, Monterey, Ca.: 1979, p. 68.
11. Office of the Comptroller of the Navy, History of U.S. Navy Audit, 1775-1977 (Washington: 1977), pp. 1 to 25.



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14. Office of the Secretary of Defense, "Audit Policies," (U) DOD Directive 7600.2 Washington: 7 August 1978, p. 2.
15. Office of the Secretary of the Navy, "Department of the Navy Audit Manual for Management," (U) SECNAVINST 7510.7A Washington: 28 December 1978, p. 1-3.
16. Ibid., p. 1-4.
17. Ibid.
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